

**Management Advisory Report: The Electronic
Tax Law Assistance Program Outperformed
Other Free Internet Web Sites in Answering
Small Business and Self-Employment Tax Law
Questions**

September 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 10, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Gordon C. Milbauer

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Electronic Tax Law
Assistance Program Outperformed Other Free Internet Web
Sites in Answering Small Business and Self-Employment Tax
Law Questions

This report presents the results of our 50 test questions on small business and self-employment issues that were posed through the Internal Revenue Service's (IRS) Electronic Tax Law Assistance (ETLA) Program during the 2001 Filing Season.¹ The objective of this review was to provide a qualitative comparison of the accuracy and timeliness of responses to tax law questions on small business and self-employment issues submitted through the Internet to the IRS and commercial web sites that offer free tax advice. This review was initiated at the request of the Senate Small Business Committee as a follow-up to our prior review, performed during the 2000 Filing Season, which showed the IRS promptly answered 90 percent of the test questions but correctly answered only 54 percent of them.²

In summary, we found that the IRS responded to 98 percent of the questions on the same day or the following day. This performance surpassed the IRS' goal of responding to questions within 2 business days and represented an improvement when compared to the results of our test from the 2000 Filing Season. In addition, the IRS

¹ The filing season is the period from January through mid-April of each calendar year during which most taxpayers file their income tax returns.

² *Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions from the Electronic Tax Law Assistance Program and Other Internet Tax Law Services* (Reference Number 2000-30-126, dated September 2000).

responded more timely than the commercial web sites, whereas the opposite was true in last year's test.

The IRS correctly responded to 45 percent of the questions. While the IRS' accuracy rate was lower than the results obtained during last year's test, it was significantly higher than the 16 percent accuracy rate achieved by the commercial web sites we tested. Most of the questions submitted to the IRS were answered by employees from the Compliance function who were assigned to work on the ETLA Program.

This report makes no recommendations for changes to the ETLA Program. The information in the report is based on a limited test of 50 questions submitted during a 3-week period during the 2001 Filing Season. They are neither statistically valid nor necessarily representative of the quality of the service the ETLA Program provided to all taxpayers throughout the 2001 Filing Season. In addition, tax law questions on small business and self-employment issues tend to be more complex than the majority of tax law questions submitted by taxpayers through the ETLA Program. Nevertheless, we believe that our test was sufficient to provide some insight into the quality of service that small businesses and self-employed taxpayers may receive through the ETLA Program. We also believe it was sufficient to provide a comparison with the quality of services these taxpayers may receive from commercial web sites that offer free tax advice.

Management's Response: The Commissioner, Wage and Investment Division, responded that the IRS relies on a statistically valid and random review of actual customer inquiries and responses, in lieu of test questions, to provide a measurement of accuracy and to identify opportunities for improvement. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are being sent to the IRS managers who are affected by the report findings. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

Government organizations have embraced the Internet to deliver information and services to American citizens and businesses. Since 1995, the Internal Revenue Service (IRS) has provided an Electronic Tax Law Assistance (ETLA) Program to answer questions submitted by taxpayers through its Internet web site known as the *Digital Daily*. The ETLA Program can also be accessed through other Internet web sites, such as *FirstGov* or *U.S. Business Advisor*.

Providing top quality service to each taxpayer is one of the IRS' strategic goals for achieving its mission. The ETLA Program offers taxpayers an accessible and convenient alternative to using the telephone to seek answers to tax law questions. Taxpayers can submit questions at any time, day or night, without having to wait in queue on the telephone and will receive an Email message from the IRS containing a written response that they can refer to as needed. The IRS' goal is to respond to each question within 2 business days.

During Fiscal Year (FY) 1999, the IRS received almost 264,000 tax law questions through the ETLA Program. This number increased to more than 334,000 in FY 2000. The IRS anticipates that a growing number of taxpayers will choose this communication option as the service becomes more widely known.

We performed this review at the request of the Senate Small Business Committee as a follow-up to a prior review we completed in Calendar Year 2000.¹ In the prior review, we submitted 50 test questions to compare the service provided to small businesses and self-employed taxpayers² by the

¹ *Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions from the Electronic Tax Law Assistance Program and Other Internet Tax Law Services* (Reference Number 2000-30-126, dated September 2000).

² The IRS defines this customer segment to include businesses with assets of \$5 million or less; individual taxpayers who are fully or partially self-employed; individual taxpayers with farming, rental, or partnership income; and individual taxpayers with unreimbursed employee business expenses.

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ETLA Program and 3 commercial Internet web sites that offered free tax advice. While this limited test showed the IRS provided answers within 2 business days about 90 percent of the time, it also showed that the IRS responded correctly to only 54 percent of the questions. By comparison, the commercial web sites provided faster responses to the same questions, but they provided correct answers for only 47 percent of the questions.

We performed our follow-up review between March and June 2001 using essentially the same methodology as last year. We submitted 50 test questions, using anonymous Email addresses, to the IRS' *Digital Daily* and 2 commercial Internet web sites that provided free tax advice. The questions we used were based on actual taxpayer questions that had been posted on various Internet bulletin boards.

This review was performed in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. The major contributors to this report are listed in Appendix II.

The Internal Revenue Service Provided Prompt Answers to Tax Law Questions Submitted Through the Internet

The IRS responded to 49 (98 percent) of the 50 questions on the same day or the following day. This performance surpassed the IRS' goal of responding to questions within 2 business days and represented an improvement when compared to the results of our test from the 2000 Filing Season.³ In addition, the IRS responded more timely than the commercial web sites,⁴ whereas the opposite was true in last year's test.

Table 1 presents a summary of the response times for the IRS and the commercial web sites.

³ The filing season is the period from January through mid-April of each calendar year during which most taxpayers file their income tax returns.

⁴ The two commercial web sites that we tested are not identified in this report.

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Table 1. Timeliness of Responses from the IRS and Commercial Web Sites

Response Time	IRS	Commercial Web Sites
Same Day or Following Day	49 of 50 (98%) <i>Surpassed IRS Goal</i>	86 of 100 (86%)
Within 2 Business Days	49 of 50 (98%) <i>Achieved IRS Goal</i>	93 of 100 (93%)
More Than 2 Business Days	1 of 50 (2%) <i>Missed IRS Goal</i>	7 of 100 (7%)

Source: Office of Audit analysis of responses received from the IRS and two commercial web sites.

The IRS did not timely respond to one question. We resubmitted the question three times before a response was finally received. Similarly, the two commercial web sites did not always respond to each question on the first submission. In fact, we resubmitted seven questions two times each before receiving responses from the commercial web sites.

The Internal Revenue Service's Accuracy Was Significantly Better Than That of the Commercial Web Sites Offering Free Tax Advice

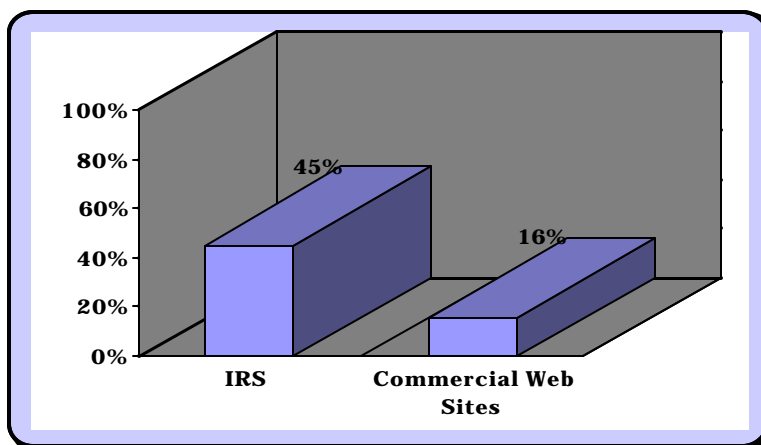
We relied upon reviewers at the IRS' Centralized Quality Review System (CQRS)⁵ site to evaluate the technical accuracy and completeness of the responses we received from the IRS and the two commercial web sites. To ensure their impartiality, we did not advise the reviewers which responses came from the IRS and which responses came from the commercial web sites.

⁵ The CQRS is responsible for continually evaluating the accuracy of the IRS' answers to tax law questions received both by telephone and through the Internet. The CQRS also develops the IRS' official quality measures for these services.

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As shown in Figure 1 below, the CQRS' evaluation of the responses to our 50 test questions showed that the IRS answered 45 percent of the questions correctly.⁶ While the IRS answered fewer questions correctly than in last year's test, the percentage was still significantly higher than that of the commercial web sites offering free advice (16 percent).

Figure 1. Overall Accuracy of Responses from the IRS and Commercial Web Sites



Source: CQRS evaluation of responses received from the IRS and two commercial web sites.

Further analysis of the responses showed that:

- ❑ The IRS and both commercial web sites correctly answered three questions.
- ❑ The IRS correctly answered five questions that only one commercial web site answered correctly.
- ❑ The IRS correctly answered 14 questions that both commercial web sites answered incorrectly.
- ❑ The IRS and both commercial web sites incorrectly answered 24 questions.

⁶ The CQRS did not evaluate the responses to one question that they believed was too confusing. Thus, the accuracy rates discussed throughout this report are based on 49 responses from the IRS and a total of 98 responses from the 2 commercial web sites.

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- ❑ The IRS incorrectly answered two questions that both commercial web sites answered correctly.
- ❑ The IRS incorrectly answered one question that one commercial web site answered correctly.

These results are based on a limited test of 50 questions submitted during a 3-week period in the 2001 Filing Season. Thus, they are neither statistically valid nor necessarily representative of the quality of the service the ETLA Program provided to all taxpayers throughout the entire filing season. The scope of our review did not include determining the root causes for the IRS' accuracy rate.

However, we believe that the test was sufficient to provide some insight into the quality of service that small businesses and self-employed taxpayers may receive through the ETLA Program. We also believe it was sufficient to provide a comparison with the quality of services these taxpayers may receive from commercial web sites that offer free tax advice.

A complete listing of the 50 questions we used is presented in Appendix IV. In addition, a table showing whether each question was answered correctly or incorrectly by the IRS and the commercial web sites is presented in Appendix V.

Compliance employees answered most of the questions

The ETLA Program is worked in 10 Customer Account Services (CAS) function sites. During the filing season, employees from the Compliance function and the Taxpayer Education and Communication (TEC) function also provide support for ETLA work.

The employee-identifying information on the 49 responses from the IRS that were evaluated for accuracy by the CQRS showed that:

- ❑ Employees from the Compliance function had answered 36 questions. These employees were primarily Revenue Agents.
- ❑ Customer Service Representatives (CSRs) from the CAS function had answered 12 questions.

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- ❑ An employee from the TEC function had answered one question.

Table 2 shows that employees from the Compliance function answered the questions with a higher accuracy rate than the CSRs.

Table 2. Accuracy Results by IRS Function

Function	Total Questions Answered	Answered Correctly	Answered Incorrectly
Compliance	36	17 (47%)	19 (53%)
CAS	12	4 (33%)	8 (67%)
TEC	1	1 (100%)	0 (0%)
Total	49	22 (45%)	27 (55%)

Source: CQRS evaluation of IRS responses.

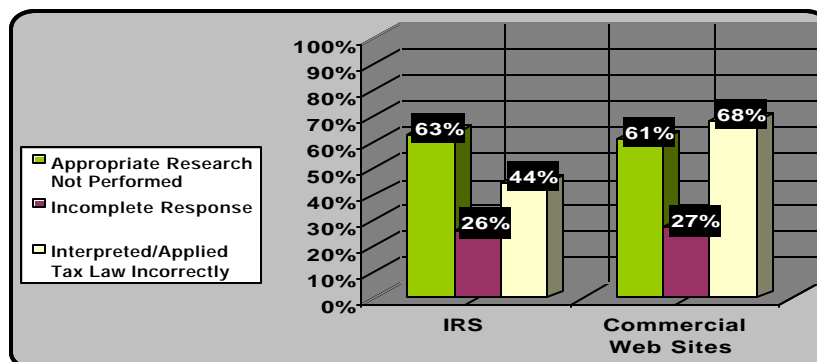
These results represent a different outcome from the prior audit, when Compliance employees correctly answered 23 of 43 questions (53 percent) and CSRs correctly answered 4 of 7 questions (57 percent).

Not performing appropriate research was the leading contributor to the incorrect IRS responses

The CQRS reviewers assigned 1 or more tax law error codes to the 27 answers from the IRS and the 82 answers from the commercial web sites that they judged to be incorrect. As shown in Figure 2, not performing appropriate research was identified in 63 percent of the incorrect responses received from the IRS. Interpreting and/or applying the tax law incorrectly was identified in 68 percent of the incorrect responses received from the commercial web sites.

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Figure 2. Analysis of Tax Law Error Codes Assigned to Incorrect Responses⁷



Source: CQRS evaluation of incorrect responses from the IRS and two commercial web sites.

Whereas more than two-thirds of the incorrect responses from the IRS had only one tax law error code assigned, nearly one-half of the incorrect responses from the commercial web sites contained two or more tax law error codes. Table 3 summarizes the number of tax law error codes that the CQRS reviewers assigned to the 27 incorrect responses received from the IRS and the 82 incorrect responses received from the 2 commercial web sites.

Table 3. Number of Tax Law Error Codes Assigned to Incorrect Responses

Number of Tax Law Error Codes	IRS	Commercial Web Sites
1 Tax Law Error Code	19 of 27 Responses (70%)	43 of 82 Responses (52%)
2 Tax Law Error Codes	7 of 27 Responses (26%)	32 of 82 Responses (39%)
3 Tax Law Error Codes	1 of 27 Responses (4%)	7 of 82 Responses (9%)

Source: CQRS assignment of error codes to incorrect responses.

⁷ The percentages exceed 100 because the CQRS reviewers assigned more than 1 tax law error code to some responses.

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Analysis of 25 questions reused from last year's test

To permit some comparison of this year's results with those of last year, we randomly selected 25 of the 50 questions that were used last year and included them among the 50 questions submitted during the follow-up test. These included 13 questions that the IRS had previously answered incorrectly and 12 questions that the IRS had previously answered correctly.

Overall, the results for the 25 reused questions were very similar to those from the 2000 review. The IRS again incorrectly answered 13 questions, while correctly answering 11 questions. The remaining question, which had been answered correctly by the IRS in the prior review, was not evaluated for accuracy by the CQRS this year because the reviewers believed it was too confusing.

Further analysis of the 24 responses to the reused questions that were evaluated by the CQRS showed that:

- ❑ The IRS correctly answered seven questions that had been answered incorrectly last year.
- ❑ The IRS correctly answered four questions that had also been answered correctly last year.
- ❑ The IRS incorrectly answered seven questions that had been answered correctly last year.
- ❑ The IRS incorrectly answered six questions that had also been answered incorrectly last year.

Comparison of the accuracy of responses to old and new questions

Overall, the accuracy of the IRS' responses to the 25 questions we reused this year was almost identical to the accuracy of the responses to the 25 new questions we submitted:

- ❑ The IRS correctly answered 11 of the 25 questions that were reused from the prior review and correctly answered 11 of the 25 new questions.

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- ❑ The IRS incorrectly answered 13 of the 25 questions that were reused from the prior review and incorrectly answered 14 of the 25 new questions.
- ❑ The CQRS did not evaluate the answer to one question that was reused from the prior review because the reviewers believed that the question was too confusing.

Additional perspectives on test results

The CQRS reviewers who evaluated the responses to our test questions provided the following feedback on the frequency, complexity, and clarity of the questions that may provide some additional perspective on the test results:

- ❑ The reviewers considered only 13 of the 50 questions to be a “frequently asked question” received by the ETLA Program. The remaining 37 questions were considered to be an occasionally or infrequently asked question.
- ❑ The reviewers stated that some of the questions appeared to be beyond the scope of the service normally provided by the ETLA Program.⁸ The reviewers stated that they would have rated as “correct” an “outside scope” determination for some of the questions.
- ❑ The reviewers stated that some of the test questions were so poorly worded and confusing that it was almost impossible to understand the issue.

We would expect the ETLA Program to receive tax law questions on small business and self-employment issues less frequently than other types of questions. The IRS serves about 33 million self-employed taxpayers and about 7 million small business taxpayers, as compared to about 116 million individual taxpayers with only wage and investment income.

⁸ The IRS’ procedures for administering the ETLA Program provide that a question may be determined to be outside the scope of service provided if it involves highly complex tax issues. If such a determination is made, an “outside scope” response should be sent to the taxpayer.

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We also recognize that some of our test questions may have been more difficult than the typical questions that are received by the ETLA Program. Small businesses and self-employed taxpayers must deal with some of the most complex tax law issues. We made no judgments concerning whether an “outside scope” determination should have been made in lieu of providing an answer for any of our questions. The fact that we did receive an answer from the IRS for each question we submitted, however, suggests that the IRS employees who provided the answers either felt comfortable with their responses or risked providing wrong answers instead of seeking an “outside scope” determination.

The questions we used were actual taxpayer questions that we copied, with only slight modifications,⁹ from various Internet web site bulletin boards that offer free tax advice. We believe that this was an objective approach to simulating the environment in which the ETLA Program operates, since all taxpayers are not knowledgeable enough to pose questions in the most clear and concise manner. In comparison to telephone assistance, one of the impediments facing the ETLA Program assistors is that they do not have an opportunity to probe the taxpayer for additional clarifying information. As a result, the IRS’ response is based on the assistor’s interpretation of the question as it was submitted by the taxpayer.

Management’s Response: The Commissioner, Wage and Investment Division, responded that the IRS relies on a statistically valid and random review of actual customer inquiries and responses, in lieu of test questions, to provide a measurement of accuracy and to identify opportunities for

⁹ A few questions were modified to change the tax year or to change the gender of the taxpayer to match our anonymous Email addresses.

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improvement. Management's complete response to the draft report is included as Appendix VI.

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Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to provide a qualitative comparison of the accuracy and timeliness of responses to tax law questions on small business and self-employment issues submitted through the Internet to the Internal Revenue Service (IRS) and commercial web sites that offer free tax advice.

To accomplish this objective, we:

- I. Selected a judgmental sample of 25 tax law questions on small business and self-employment issues from the 50 questions that were used during the prior audit¹ to permit some comparison of this year's results with those of last year. We selected the questions by using an interval selection technique from a random starting point. The sample included 13 questions that were previously answered incorrectly by the IRS and 12 questions that were previously answered correctly by the IRS. Each of the questions used in the prior audit had been based on actual taxpayer questions posted on various Internet bulletin boards.
- II. Selected a judgmental sample of 25 new tax law questions on small business and self-employment issues. These questions were identified between March 8 and March 26, 2001, from actual taxpayer questions posted on various Internet web sites. We selected 25 new questions so that the total number of questions used in this year's review was the same as the prior audit.
- III. Submitted the 50 test questions, using anonymous Email addresses, to the IRS' *Digital Daily* and 2 commercial Internet web sites that provide free tax advice. We resubmitted questions to the IRS and the commercial web sites if no response was promptly received within a few days of the initial submission.
- IV. Evaluated the 150 responses received for timeliness by comparing the date of our initial submission of the question to the date the response was received to determine the number of business days that had elapsed.

¹ *Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions from the Electronic Tax Law Assistance Program and Other Internet Tax Law Services* (Reference Number 2000-30-126, dated September 2000).

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- V. Submitted the 150 responses received to the IRS' Centralized Quality Review System² (CQRS) function for an independent evaluation of the technical accuracy and completeness of the answers. We removed all identifying information from the 150 responses before submitting them to the CQRS so that the reviewers would not know which responses came from the IRS and which responses came from the commercial web sites. At our request, the CQRS reviewers:
 - A. Assessed the technical accuracy and completeness of the 150 responses by rating each response as "correct" or "incorrect."
 - B. Assigned "error codes," along with an explanation of the errors, to each response that was determined to be "incorrect."
 - C. Evaluated each of the 50 questions as to whether it represented a "frequently asked question" submitted through the Electronic Tax Law Assistance (ETLA) Program.
- VI. Received the CQRS function's assessment of the 150 responses. The CQRS reviewers did not evaluate the three responses received for one question because they stated the question was too confusing. We analyzed the CQRS function's technical assessment of the remaining 147 responses and:
 - A. Calculated the accuracy rate for the 49 responses received from the IRS and the accuracy rate for the 98 responses received from the commercial Internet web sites.
 - B. Calculated the accuracy rate for the 25 responses received from the IRS for the 25 questions that were reused from the prior review.
 - C. Compared the accuracy rate for the 25 reused questions to the accuracy rate for the 25 new questions.
 - D. Analyzed the error codes assigned by the CQRS reviewers to the "incorrect" responses.
- VII. Determined whether the 30 IRS employees who responded to the 50 questions were Customer Account Services (CAS), Compliance, or Taxpayer Education and Communication (TEC) function employees.

² The CQRS is responsible for continually evaluating the accuracy of the IRS' answers to tax law questions received both by telephone and through the Internet. The CQRS also develops the IRS' official quality measures for these services.

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- VIII. Determined the accuracy rate of the IRS responses according to the function (i.e., CAS, Compliance, or TEC) for which the responding employee worked.

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Appendix II

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Deputy Commissioner, Small Business/Self-Employed Division S
Deputy Commissioner, Wage and Investment Division W
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Director, Taxpayer Education and Communication, Small Business/Self-Employed Division S:T
Director, Accounts Management, Small Business/Self-Employed Division S:CAS:AM
Director, Accounts Management, Wage and Investment Division W:CAS:AM
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Wage and Investment Division W
 Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
 Director, Customer Account Services, Wage and Investment Division W:CAS

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Appendix IV

Listing of 50 Tax Law Questions Submitted to the Internal Revenue Service and Commercial Web Sites¹

1.	Can a person reduce their income from their primary job if they have losses from their home based business? Or can you only deduct up to the amount that the part time business earned? I know that you used to be able to do this, did it change recently?
2.	I own a home in VA which I was renting. I reside in MD and now own a home here. Would I have to pay additional taxes because I rented the house out in VA for a year?
3.	I sell products through a direct marketing party plan business part-time. This year I won't get a 1099 because my income fell below the limit. Can I still claim expenses?
4.	My wife is in the health insurance business with a large corporation but also sells life insurance products on the side. Are any expenses associated with this side business deductible (i.e. home office)?
5.	I sold the primary product of my company to another, then dissolved my corporation. The buyer is making payments, which will conclude in 2001, with the money I am paying a loan/capital investment off. Why am I paying taxes on the whole sale amount instead of what I actually received in 2000 and why can't I deduct from income the loan/return on investment?
6.	I have business abroad with my relative. If I have some loss from the business, can I deduct the loss with "net profit from business"? If yes, what documents do I need to supply?
7.	If gross receipts on Schedule C include contract work income and sales income (subject to local sales tax), would it be appropriate to attach a breakdown of the income to differentiate the two (as the state cross references this figure to sales tax collected) or is a separate Schedule C required for the two types of income? This is for an artist/photographer-bulk of income from contract work/gallery commission, but some income made from a few direct sales.

¹ To assure the authenticity of the questions, we selected actual taxpayer questions that were posted on various Internet web sites that provide free tax law advice. The questions are presented in this Appendix as they were originally composed by the taxpayers. We made no efforts to correct any grammatical errors that may have existed.

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8.	I am itemizing; however, my total deductions do not exceed \$7200 even with rental property. How do I treat the rental property or can I just file a 1040A without itemizing?
9.	I have a couple of questions. We have a house that we rent out. We are military and had to move to Georgia. We don't make a profit on it. It is used to pay our mortgage. How do we claim the rental money they have paid us? We received that 1099 from the rental agent. Also, can we claim the repairs we've made if we don't itemize? How about the depreciation on the appliances and such?
10.	I invested \$5,000.00 in a home business, which was registered with the state as a corporation. The agreement with the investment in writing, if in two years I was not satisfied with the investment, I would get \$7,500 back. I have tried getting my money back by taking the business to court and the judge signed a judgement on my behalf but I still haven't received a dime. I spent another \$1,000 in lawyer fees and court costs. I would like to know whether or not I can claim this loss on my Federal income tax and if I can what amount can I claim and what forms are need to make such a claim.
11.	I sold my home business 10-31-00, name, equipment and all. The income for all of 2000 will be noted on 1099s from each client. How do I break down the amounts for me and for the new owner?
12.	What is the rollover time for capital gains on property sold for business use? Also, how is the gain taxed and are there legitimate ways to avoid paying the taxes.
13.	I have spent a little over \$15,000 dollars on my rental property this year. Do I depreciate this for how many years and is it done on a special form?
14.	I operate a bulk mailing business from my home. I process third class mail for clients and deliver it to the Post Office. I am usually paid with a check that covers both my services and the US postage needed to mail their material. I have been doing this for 5 years now and I have been preparing my taxes using tax software. How should I treat the portion of my gross income that I pass on to the USPS in the form of postage? This is money that I receive no benefit from, therefore, should not really count as income.
15.	I have sold timber that was cut from a property I own. I am not in business to sell timber; this is a one-time deal. Do I have to report the income received on my tax return? If so, how?

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16.	How do I report interest received on an Installment sale?
17.	We have a sub S corporation. In order to get a deduction for 2000 can I make my SEP contribution after the year end 12/31?
18.	My business purchased four tickets to a Police Benefits Association dinner at \$50 each. I did not attend the affair or give the tickets to anyone else. Does the full \$200 dollars qualify for a deduction or am I limited to the \$35 donation portion of the ticket?
19.	I started a computer web page design business that is run out of my home. My investment in equipment and software and other start up costs was over \$20,000. Does this amount qualify for an immediate Section 179 deduction? Also, if I chose to depreciate it over time, how long a life span does the equipment have and how is the value of the obsolete equipment and software determined?
20.	I recently purchased a vehicle that is used 50% for business and 50% for pleasure. I incurred \$500 in luxury taxes. How is this tax handled, as an expense or added to the basis of the car and depreciated over the life of the vehicle?
21.	If a piece of rental real estate is held for more than a year and is depreciated under MACRS (27 1/2), does recapture apply. If so, could you give an example of how to calculate? Is there a Section number you could cite?
22.	I moved to Florida from Alabama. I am renting in Florida. I spent 6 months trying to sell my house in Alabama with no success, and finally ended up renting it out. (At a loss...I have to pay \$750 a month for mortgage/insurance/property taxes and I receive \$700 rent). Do I get to claim anything other than the interest on the home loan I have?
23.	I have a small business. Who is required to file Forms W-2 electronically?
24.	I hired a baby-sitter to care for my children in my home. Do I need to withhold taxes on her wages?
25.	I am a nursing student bonuses are available to the nursing students provided they become employees of the hospital upon graduation. The student has the option to take the money at the time of election or defer until time of employment. If the student chooses to take the cash up front, should the income be reported on a 1099 or W2 in the year of payment from the hospital's standpoint?

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26.	I am currently selling my 50% ownership in a Calif. Partnership. I have not received profit distributions since Oct. of 2000. For the year 1999 my income distribution was (\$86) and my year end capital acct. showed (\$4,445). During the year 2000, the total partnership NI is approx. \$90,000 and my capital account was approx (\$32,000) as of my last draw in Oct. of 2000. I would like the sale to be retroactive to Oct., I think if possible, but if the sale was Dec. 31, would I be liable for half of the NI, for 2000, even though I didn't recieve all of this money or just my distributions? Thanks for your help.
27.	I am preparing a partnership return for a rental real estate company. They have 2 general and 2 limited partners. Can I take section 179? Will each partner be able to take the deduction, assuming income and investment limits allow? I would appreciate any advice. Thank you for your time.
28.	When I retired in mid-1998, I began receiving a buyout from the medical partnership of which I was a former member. The buyout lasts 36 months. I receive an annual 1099-MISC with the amount of my annual income in box 7 – nonemployee compensation. In the past, my accountant has entered this amount on schedule C and had me pay self-employment tax. I am not self-employed in that I perform no services for the medical group anymore. Were the compensation lifelong, I believe I would qualify to be exempted from self employment tax. As it is, I wonder if I could make a reasonable argument that I should still be exempt from self employment tax. Any thoughts?
29.	When depreciating an asset (company truck) on Form 1065 Part V, what is entered In column (g):“Method/Convention”? and in column (h): “Depreciation deduction”? and how do you obtain the info for this entry? Lastly, on Line 13, Sch K, line # 12. Do you enter the amount of company contributed Social Security for employees? thank you for your time.
30.	What happens if you lose your original 2553 form?

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31.	I bought a rental condo in 1994 for 37000. i depreciated it about 1500 a year. i sold It for 47000 in 2000. I put in a new bath and new furniture at about 15000 in 98,99,2000. should i be paying any capital gains on this, and what forms will i need to use,
32.	As a full time life insurance agent, I am a statutory employee and my company witholds my share of FICA taxes. When I take my deductions from my income on Schedule C, I in effect lower my income. Am I entitled to a refund of FICA tax because the tax was calculated on too high of a figure?
33.	IF SOMEONE PAYS YOU ON A1099-MISC IN BOX 3 AND IT IS FER SERVICES YOU PERFORMED AS PART OF YOUR BUSINESS IT GOES ON SCHEDULE C AND WOULD THERE BE ANY SE TAX INVOLVED
34.	Small business filing 1040 SE, including depreciable assets, if sold during the year, how much depreciation expense should I take, all and then recapture in the sale of business assets?
35.	I made approx \$80,000 this year from my employer. All social security was with-held. I also made about \$95,000 in income from self-employment. Do I need to pay social security tax on this amount or did I exceed the amount with my regular job. Thanks very much for the help.
36.	Hi, In 2000 I earned approximately \$10,000.00 through my various websites. My annual household income for 2000 is \$75,000.00. My only expenses for the \$10,000.00 besides my time, is my internet connection and the purchase of 2 new computers and various hardware upgrades. Am I able to deduct those expenses completely or do I have to deal with depreciation? Thanks
37.	How can a sole proprietor report expenditures under the accrual accounting method?
38.	What is the minimum number of years over which most business equipment may be depreciated under MACRS?
39.	I received a 1099- Misc. this year for temporary child care. Do I have to file a schedule C?
40.	i have a small jewelry business which i just started in the year 2000. i only made about \$5,000. do i have to file taxes for it? all the payments have been checks. should i be charging the buyers tax for the jewelry I produce? Thank you.

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41.	<p>I worked as an independent contract laborer part-time for a man who has his own business. He has an accountant for his business and I have asked numerous times to have a 1099 sent to me so I can file my taxes. I have been unable to get one.</p> <p>Can I file my taxes without it. I received checks from him for all wages and know total amount I received from him.</p> <p>Thank you.</p>
42.	<p>I started an import/export business last year where I carry inventories until my products are sold. When reading IRS publication 334 it seems to contradict itself. On one hand it says that if you have inventories you must use the accrual method of accounting but on the other hand it mentions that if your annual gross receipts are less than 1 million then you can adopt the cash method. Do I need to use the accrual method?</p> <p>Thanks in advance!</p>
43.	<p>Can I claim all my expenses incurred for my small business (LLC) eventhough I am not declaring any income from it?</p>
44.	<p>I have a small plumbing business I run out of my home. Because my wife helps with the office and she has her own health insurance can I pay for that insurance and take a deduction?</p>
45.	<p>During 2000 I worked full-time at my job and have a 401K. However, I also exercised options from a previous job and received a 1099 for "non-employee" income that is greater than the salary I received this year.</p> <p>Two questions: 1. Is this other income subject to social security taxes? 2. Can I set up a SEP or Keough to shield some of this income (eventhough I already have a 401K)?</p>
46.	<p>For the first three months of the year I was self-employed. I made approx. \$30K. For the remainder of the year I worked full-time for a company with a 401K. I believed I maxed it out before the year ended.</p> <p>Question: I set up a SEP in 1999. Can I contribute any of my self-employment income to the SEP eventhough I had a 401K for the last 9 months of 2000?</p>
47.	<p>I have a commercial property that has been vacant for one year...can I deduct all expense including depreciation for one year from my income tax???</p>

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48.	If one individual buys all of the stock of a second individual, in a single S Corp, does the first individual need to file a new election to be treated as an S Corp? Or since the corporation is continuing is the original election still valid even though the person owning the stock has changed.
49.	I have been a self-employed writer/editor for a few years now. This past June I became a LLC, of which I am the only member. In previous tax returns I just filed a Schedule C to report my business earnings. For this year do I need to file a schedule C for the first 5 months, before I became an LLC, and then another schedule C for the last 7 months, or a schedule K for that matter or can I just file one Schedule C (or K) for the entire year. I believe that some of my income will be reported on the 1099-misc using my social security number and some will use my EIN number. Does that make a difference as well (keep in mind, I am the only member of my LLC). Any help you can provide will be extremely appreciated!
50.	My wife is self employed as a Nail Salon Technician and buys supplies to work on clients nails. This is the majority of the purchases for her business although she does sell some products retail and therefore pays a sales tax on those sales. We have kept the product records separate and identify some as inventory for sale. If I read correctly, this year a small business \$60,000, can opt to call all product supplies as materials and supplies and not have to carry an inventory. Thanks for info on this issue.

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Appendix V

Tabulation of Correct/Incorrect Responses¹

							Responses
	Internal Revenue Service		Commercial Web Sites				With No
Question							Accuracy
Number	Correct	Incorrect	Correct	Incorrect			Rating
1		1		2			
2		1	1	1			
3		1		2			
4		1		2			
5	1		1	1			
6							3 ²
7	1			2			
8	1		2				
9	1			2			
10		1		2			
11		1		2			
12	1			2			
13		1		2			
14	1		1	1			
15	1			2			
16	1			2			
17	1		1	1			
18	1		1	1			
19		1		2			
20		1		2			
21	1			2			
22		1		2			
23		1		2			
24		1		2			
25		1		2			

¹ Fifty questions were submitted to the Internal Revenue Service (IRS) and two commercial Internet web sites that offered free tax advice during the 2001 Filing Season. A total of 150 responses (50 from the IRS and 100 from the commercial web sites) were received. Questions 1 through 25 were reused from the prior year review.

² Reviewers at the Centralized Quality Review System site did not evaluate the responses to Question 6 because they believed the question was too confusing.

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								Responses
	Internal Revenue Service		Commercial Web Sites					With No
Question								Accuracy
Number	Correct		Incorrect	Correct		Incorrect		Rating
26	1			1		1		
27			1			2		
28			1			2		
29			1			2		
30			1	2				
31			1			2		
32	1			2				
33			1			2		
34			1			2		
35	1					2		
36			1			2		
37			1			2		
38	1					2		
39	1					2		
40			1			2		
41			1	2				
42	1					2		
43	1					2		
44	1					2		
45			1			2		
46			1			2		
47			1			2		
48	1			2				
49	1					2		
50	1					2		
Total	22		27	16		82		3

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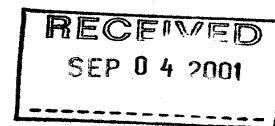
Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

AUG 31 2001



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Management Advisory Report - The Electronic Tax Law
Assistance Program Outperformed Other Free Internet
Web Sites in Answering Small Business and Self-Employment
Tax Law Questions (Reference No. 200130022)

Thank you for the opportunity to review and comment on your report. I appreciated the efforts your staff made to give us information throughout this audit. I am glad our experienced technical staff in the Centralized Quality Review function could help your staff evaluate the responses to the test questions. As your report indicates, the Electronic Tax Law Assistance (ETLA) Program continues to increase in popularity among our customers. I am pleased your report recognizes that this year we improved response speed and exceeded our goal for timeliness.

While we do not consider the use of test questions a valid measurement of accuracy, we recognize your need to maintain a consistent approach in this follow-up review, requested by the Senate Small Business Committee. We rely on the statistically valid and random review of actual customer inquiries and responses. We believe this practice gives us an accurate assessment of the quality of our product and valuable insight on opportunities for improvement. I appreciate your effort to explain the impact of limited test questions made during a brief time period on statistical validity and reliability. In addition, the inclusion of our comments in the section Additional perspectives on test results concerning the frequency, complexity, and clarity of the questions adds additional balance to the report. These questions represent the more difficult and least frequent work received in the ETLA Program.

If you have any questions, please call me or members of your staff can contact Ron Watson, Director, Customer Account Services, at (404) 338-8910.